

Fixed Cost Method

Hey guys,

Welcome back.

We went over the 70% rule and why fix & flip investors use it.

But we also saw that it has its disadvantage of assuming all markets are equal.

So in this lecture, we're going to look at an alternative method, one that you can use to factor in more market specific assumptions.

Here the difference is instead of using a broad stroke of lumping the investor buyer's holding costs and desired profits into a single figure—aka 30% of the ARV, we're going to break it out.

Namely, we'll break it out into two main categories.

The first one is the investor's desired profit. This one is easy, especially if you've worked with the investor before. All you need to do is talk to a few investors in the area to understand what their desired profit margins are.

You might find that your target investors might want to achieve at least \$20K in profits so you, being more conservative might factor in \$25K.

The part will be the holding costs, which will include things like the following:

- Inspection Costs: \$400
- Lender Fees: \$1,000
- Closing Costs: \$2,000

- Mortgage Payments: \$2,500
- Property Taxes: \$600
- Utilities: \$1,000
- Insurance: \$200
- Commissions: \$4,000
- Selling Closing Costs: \$4,000
- Home Warranty: \$500
- Termite Letter: \$100
- MLS Fees: \$100 As you can see, these could VARY a lot depending on the market and the size and nature of the property you're working with. But it requires that you know your market really well.

Starting out, if you don't know your market very well, the 70% rule is a great starting point. But as you get more experienced in the area, getting to know both your market and your buyers more intimately, you should be able to sharpen your pencil more and get a better grasp on all these numbers.

Doing so will give you a competitive advantage because the vast majority are just using the 70% rule.

It'll allow you make smarter bids—not over bidding and not under bidding at times.

In the remaining lectures, we're going to look at an example where I'll demonstrate the calculation using both methods.

And we'll also explore some differences when you're approaching

a buy & hold investor buyer, who sometimes might be willing to pay a bit more for the property.